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January 21, 2002

VIA ELECTRONIC SUBMISSION

Ms. Marlene H. Dortch
Secretary
Office of the Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Dear Ms. Dortch:

Re: **Memorandum of Ex Parte Communication**
CC Docket No. 01-338, Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers

CC Docket No. 96-98, Implementation of the Local Competition Provisions in the Telecommunications Act of 1996

CC Docket No. 98-147, Deployment of Wireline Services Offering Advanced Telecommunications Capability

On January 17, 2003, Jim Smith (Senior Vice President – FCC), Christopher Heimann (General Attorney) and the undersigned met with Commissioner Kevin Martin and Dan Gonzalez, Senior Legal Advisor to the Commissioner. SBC described its analysis which demonstrates that residential customers can be profitably served using unbundled loops and CLEC provided switching.

The attached materials were discussed during the meeting.

Pursuant to Section 1.12 of the Commission's rules, this *ex parte* is being electronically filed. I ask that this *ex parte* be recognized with the proceedings identified above.

Please call me should you have any questions.

Sincerely,

Attachment
cc: Commissioner Martin
D. Gonzalez

Residential Customers Can Be Profitably Served Using UNE-L

January 17, 2003

Three Key Questions in Analyzing Impairment

Q. *Do CLECs need unbundled switching in order to provide local service anywhere in the U.S.?*

A. No. The evidence in the record shows that CLECs are providing local service using their own switches in both urban and rural America.

Q. *Are there any operational impediments (e.g., hot cuts) that prevent CLECs from providing local service using their own switches?*

A. No. SBC has demonstrated that it provides the CLECs with timely, cost-effective hot cuts in the volumes necessary for CLECs to serve mass-market customers and that the hot cut process is scaleable.

Q. *Are there economic barriers keeping CLECs from providing local service using their own switches?*

A. No. SBC's analysis demonstrates that CLECs winning 5% to 10% of access lines in wire centers of 5,000 lines or more can profitably serve residential customers using their own switch. Moreover, since the markets served by CLECs contain both large and small offices, even where some smaller wire centers are not profitable, CLECs can still serve the mix of offices profitably.

SBC's Business Case Analysis

- Financial model constructed to evaluate whether CLECs can profitably serve residential customers using their own switch with loops and transport supplied by SBC
- SBC analyzed wire centers with relatively small numbers of access lines
  - Analyzed various sized wire centers
    - One or more CLECs use their own switches to serve customers in 78% of offices with more than 5,000 lines
    - Two or more CLECs use their own switches to serve customers in 63% of offices with more than 5,000 lines
  - Offices with fewer than 5,000 access lines represent 42% of all SBC wire centers

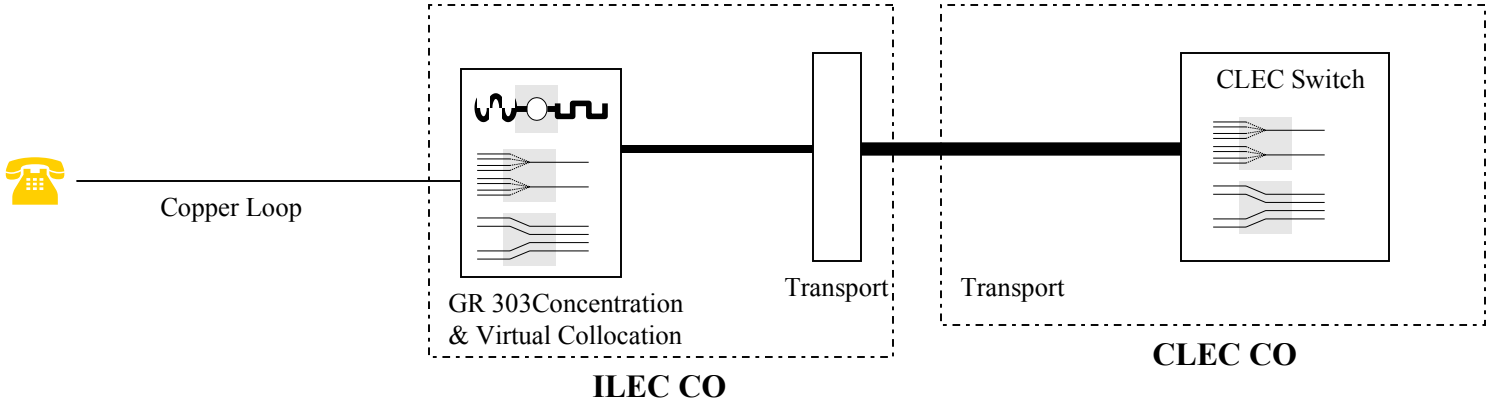
CLEC Business Case Model

- The model compares the costs of a UNE loop serving arrangement to the residential revenue opportunity available to competitors
- SBC modeled three states with high UNE-P volumes, one from each of SBC's regions
  - California, Michigan and Texas
  - These three states represent 64% of the residential UNE-P lines in all of SBC

Conservative Model Assumptions

- Used residential customer revenues only
  - Business customers provide greater revenue & margin opportunities
- Developed at a wire center level
  - CLECs make entry decisions for a larger market area with greater revenue opportunities and cost savings
- Included using a new switch to serve the wire center
  - CLECs already have numerous switches which can and do serve residential customers
- Included new collocation arrangements
  - CLECs have already established 24,900 collocation arrangements
  - 70% of SBC offices with more than 5,000 access lines have collocation

Modeled cost components



- Included costs for loops, cross-connects, virtual collocation, concentration equipment, transport, switching, long distance and SG&A
- Reflects both non-recurring and recurring costs

Modeled Revenue Opportunities

- CLECs provide customers with a package of local, long distance and custom calling features
- Revenue opportunities used in SBC's analysis are fully consistent with local and long-distance packages currently provided to residential customers

"Finally, a place where "unlimited" really means unlimited.
With The Neighborhood, you're free to call
anyone, anytime, anywhere in the U.S.
for one low monthly price.
So there are no limits on who you can call,
when you can call, or where you can call.
Sign up and get the following features
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UNE-L Competition Generates Positive Margins

California		CLEC Retail Price Points		
		$40	**$50**	$60
		Margin		
Market Share	5%	-$2.31	**$5.69**	$13.69
	10%	-$0.65	**$8.65**	$16.65

Michigan		CLEC Retail Price Points		
		$40	**$50**	$60
		Margin		
Market Share	5%	-$0.97	**$8.97**	$16.97
	10%	$6.48	**$14.48**	$22.48

Texas		CLEC Retail Price Points		
		$40	**$50**	$60
		Margin		
Market Share	5%	-$3.25	**$4.75**	$12.75
	10%	-$0.03	**$7.97**	$15.97

Notes: Based on CO with 5K access lines. Margins reflect SG&A costs estimated as 20% of revenue.

Our study demonstrates that CLECs can profitably serve residential customers using a facilities-based UNE-Loop serving arrangement

Conclusions

- CLECs can profitably serve residential customers in wire centers with 5,000 access lines
  - With a mix of residential and business customers, CLECs can profitably serve customers in wire centers smaller than 5,000 access lines
- CLECs will in fact serve a larger market consisting of both large and small wire centers
  - Even if some smaller wire centers are not profitable, in the aggregate, CLECs can profitably serve the mix of wire centers
  - SBC is also not profitable in all offices, but does not have the luxury of picking and choosing its customers